

Citizen Commission for Performance

Measurement of Tax Preferences

August 12 Meeting Follow-Up

At the August 12th meeting, Commissioners raised several questions and issues for clarification during the JLARC staff presentation. Below are staff responses and clarifications to those issues.

PREFERENCE: Semiconductors

Question: The report included the state-wide median private sector wage of \$21.48. What are the median wages in the counties where semiconductor jobs are located?

Two companies have publicly reported claiming the preferential B&O rate for semiconductors:

- SEH America with 782 employees in Vancouver
- Galaxy Compound Semiconductor with 17 employees in Spokane

As reported by the Employment Security Department, the median private sector hourly wage in 2014 in Clark county was \$19.27 and \$18.24 in Spokane county.

For the sales and use tax exemption, fewer than three businesses filed annual surveys in 2014 so we're unable to publish any employment information from those.

PREFERENCE: Data Centers

Question: Did the dollar figures shown for increases in property tax collections and decreases in sales tax and property tax collections include any assumptions related to whether the tax preference caused the data centers to locate in rural Washington?

No, the estimated figures did not reflect any such assumptions. Rather, they represented the maximum effects on both property tax increases and sales tax decreases. JLARC staff were unable to identify a reliable method to objectively estimate how much of the data center activity was located in rural Washington due to the tax preference.

While an estimate was not included in our report, assumptions for the degree of causality (meaning the percentage of the data center investment that occurred as a result of the tax preference) could be used to adjust both numbers.

Below are four examples of such adjustments. Each estimate includes a different assumption for the percentage of the beneficiary data centers that locate in rural Washington because of the tax preference.

Percent Investment Assumed to be Caused by Preference	Sales Tax Revenue (\$m)	Property Tax Revenue (\$m)	Net Revenue (\$m)
100%	\$0.0	+\$22.0	+\$22.0
72.2%	-\$15.9	+\$15.9	\$0.0
50%	-\$28.5	+\$11.0	-\$17.5
0%	-\$57.0	\$0.0	-\$57.0

Note on method:

Each estimate includes a different assumption for the percentage (P) of the beneficiary data centers that locate in rural Washington because of the tax preference. These percentages affect the estimates of the two revenue components differently:

- *Property tax revenue attributable to data centers is only a 'gain' if the investment is caused by the tax preference. As such, the revenue gain is estimated as the total property tax obligation multiplied by the percentage of investment caused by the preference.*

$$\text{Property Tax Revenue} = \$22 \text{ million} * P$$

- *Beneficiary savings represents a sales tax revenue loss if the data center would have been located in rural Washington absent the preference. Revenue loss is estimated as the total beneficiary savings multiplied by the percentage of investment **not** caused by the preference.*

$$\text{Sales Tax Revenue} = \$57 \text{ million} * (1 - P)$$

PREFERENCE: Timber and Wood Products Manufacturing

Question: Did the preference create or retain jobs in the timber industry?

Using the REMI model, the report included an estimate of net statewide job impacts related to the preference over a 10-year period, 2015-2024. The results are outlined below.

- For timber and wood products industries, the model estimates an initial increase of 9 jobs in the 2015 and 32 jobs in 2024.
- For public sector employment, the model estimates a reduction of 142 jobs in 2015 and a reduction of 132 in 2024
- For other private non-farm employment, excluding timber and wood products employment, the model estimates a loss of 96 jobs in 2015 and a reduction of 6 jobs in 2024.

Combining these numbers, the model estimates a net job loss in 2015 of 229 jobs and a net job loss in 2024 of 106. This analysis can be found in the report in the “Revenue and Economic Impacts” section, [linked here](#).

Question: The report included information on timber industry employment between 2006 and 2014, noting that overall timber industry employment reduced 31% during this period, with rural counties reduced by 24% and non-rural counties reduced by 40%. Are these percentage changes substantially different if a date earlier than 2006 is used?

Using 2002 as the start date (rather than 2006), the employment changes are not significantly different:

- Overall timber industry employment reduced 30%, rather than the 31% included in the report.
- For rural counties, the reduction was 23%, rather than the 24% included in the report.
- For non-rural counties, the reduction was 41%, rather than the 40% used in the report.

PREFERENCE: Nonresident, Large Private Airplanes

Question: Does the Legislative Auditor recommend immediate termination of the preference?

No. The Legislative Auditor recommends that the Legislature allow the preference to expire in 2021 if on that date the preference is still not being used. That expiration date is eight years after the preference was enacted. The report also notes that JLARC staff will conduct a review of several aerospace preferences in 2019. In that subsequent review, JLARC staff will update the Commission on whether the preference has been used within the first six years of being enacted.